JAPANESE IMPORTS OF U.S. HORTICULTURAL PRODUCTS FORECAST TO DECLINE BY TEN PERCENT

Yen depreciations, reduced disposable incomes and higher priced imports have led to reduced imports of horticultural products in 1996 and 1997. Further currency devaluations are forecast to reduce imports of U.S. horticultural products by more than 10 percent in 1998. Calendar year 1998 imports of U.S. horticultural products are forecast at $1.8 billion down from a high of $2.5 billion in 1995. With the exception of grape wine and fresh vegetables, 1998 imports of most U.S. products are down from previous year's levels. Categories forecast for the most significant decreases for 1998 are fresh citrus, fruit and vegetable juices, tree nuts, beer and cherries.

OUTLOOK

The Japanese import value of U.S. horticultural products is forecast to decline by more than 10 percent in 1998 to $1.8 billion. Imports showing big declines for the first half of 1998 are: fresh citrus (which accounts for almost 25 percent of U.S. horticultural imports) off 16 percent; although total of non citrus fruit held steady fresh cherries fell 45 percent; fruit juices were off 18 percent with big declines in apple juice, grapefruit juice and fruit juice mixtures; tree nuts were down 14 percent; beverages were down 10 percent with beer off 41 percent.

Rising Exchange Rate Lowers Demand for Imported Products

The most significant element affecting demand for U.S. products is the rising exchange rate. In 1995, imports of U.S. horticultural products reached an all time high of $2.5 billion. By 1997 imports declined by 20 percent. During that same time the yearly average exchange rate rose 26 percent. Between January and June of 1988 the rate rose by 11 percent.

During the first half of this year, the Japanese import value of U.S. citrus fruit is down 18 percent. In the first half of 1998, U.S. grapefruit imports were off 21 percent, U.S. orange imports were off 10 percent, and lemon imports were off by 15 percent compared to the first half of 1997. These declines were due to exchange rate depreciations exacerbating a situation complicated by a 35 percent increase in Japanese tangerine production and a short U.S. crop of "Japan quality" grapefruit.

Last year imports of U.S. non citrus fruits were off 10 percent in nearly all categories, primarily due to exchange rates devaluations. This year imports may well be down in excess of that figure due to a short U.S. sweet cherry crop in California. The California crop was reduced due to cool wet weather during pollination. Nevertheless, sweet cherry sales from the U.S. may increase as supplies from the Pacific northwest become available. Japan is the largest export market for U.S. cherries accounting for about 40 percent of all U.S. cherry sales in 1997.

Japanese Vegetable Imports Remain Stable

The 1998 forecast for Japanese vegetable imports from all principal suppliers are expected to be unchanged from last year. Since vegetables are a staple item in the Japanese diet, overall vegetable consumption has continued steady in spite of the poor economy. Import demand depends heavily on variations in domestic production as domestic product accounts for nearly 95 percent of consumption. Domestic vegetable prices for 1998 are high due to short supplies caused by excess rain and insufficient sunshine during the spring. In May, the average wholesale price of all fresh vegetables (a market basket of 135 items) reached a ten year high, up 25 percent from the previous year. Prices have been particularly strong for carrots, onions and potatoes. Fresh lettuce is also in short supply.

Demand for the product is strong and growing due to its use in fast food outlets. So far, 1988 vegetable imports from the U.S. are receiving a boost from a strong import demand for onions. Imports of U.S. onions are up 83 percent by value for the first half of 1998 due to a short Japanese domestic crop and steady U.S. prices.

Frozen Vegetable Sector Shows Strength

Japanese imports of frozen vegetables from the U.S. has shown strength in the first half of 1998 due to a strong demand for frozen potatoes. Domestic production of frozen potatoes in 1996 was down 14 percent from the year before because farmers focused on the fresh market which offered significantly higher returns to growers than the processing sector. According to the Japan Frozen Food Association, production of frozen potatoes in 1996 was 33,000 tons. Imports during that year were 207,000 tons. The U.S. accounted for 88 percent of those imports. Demand for imported frozen potatoes is driven by the fast food sector. About 88 percent of frozen potatoes are consumed at hamburger chains, family restaurants, snack bars and other retail outlets. With consumer buying power stagnating at all income levels, Japan's food service sector has altered menus with more lower-priced priced items. Consumers are increasingly demanding value. For example, McDonald's has lowered prices, has reported record turnover, and in the last two years, has doubled its outlets.

Other Factors Affecting Demand For Imported Products

For a variety of reasons domestically produced horticultural products are more expensive than imports. Japan's labor force is growing at a low rate and most of the people are employed in the manufacturing sector which provides a better income than the agricultural sector. Thus, Japan's production of horticultural products is severely constrained by labor shortages and is unable to furnish enough output to fill the demand for the processing and fresh market. In an effort to keep the agricultural sector vibrant, the Government continues to maintain a general policy which protects high cost domestic producers, the distribution network, and manufacture-based pricing. All of this helps keep Japanese retail prices substantially higher than almost any other developed country.

The Competition For the Fresh Fruit and Vegetable Market

The United States major competitors for fresh fruit in Japan are Canada, Chile, and New Zealand. Although China produces large quantities of fruit there is no indication that this country will become a major supplier in the near future. China has yet to demonstrate that it has the quality to export or that it has the infrastructure necessary to become a sustained reliable supplier.

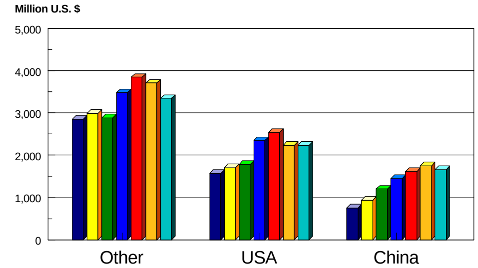
China and Southeast Asia are the principal suppliers of oriental vegetables. In recent years these countries have begun to grow and ship to Japan increasing quantities of western style vegetables, much of it with seed and expertise from Japanese trading companies. This is also true for frozen vegetables, due to the heavy Japanese investment of quick freeze facilities.

U.S. Market Share Remains Steady

In 1997, Japan's horticultural imports from the world declined 12 percent from the all time high in 1995. During the same period, imports from the U.S. declined 18 percent. However, U.S. overall market share only dropped 2 percentage points to equal 28 percent. This is because of sizable declines in high value items, such as brandy and mushrooms, of which the United States is a small supplier.

The following graphs show that over the years the U.S. market share for fresh fruits and vegetables, which account for 40 percent of Japanese horticultural imports from the U.S., have remained strong.

Japanese Horticultural Imports
Principal Suppliers
Calendar Years 1991 - 1997



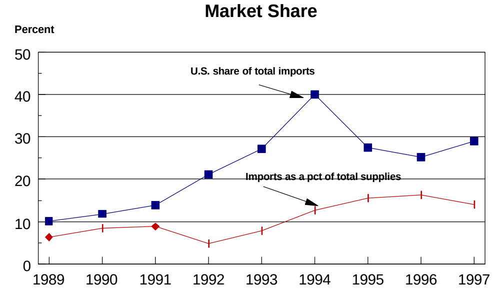
Horticultural products include nursery stock, cut flowers, tree nuts, fresh, frozen, dried, prepared or preserved fruit and vegetables, fruit and vegetable juices, wine, beer, non-alcoholic beverages, hops, soups and essential oils.

Japanese Fresh Fruit
Market Share

Percent

For further information on production, supply, distribution and trade contact Robert Knapp Horticultural and Tropical Products Division, (202) 720-4620.

Japanese Fresh Vegetable
Market Share



Domestic Supply Data from Japan Ministry of Agriculture
Trade Data from Japanese imports